

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 983 Florida Research Commercialization Matching Grant Program

SPONSOR(S): Hudson and others

TIED BILLS: **IDEN./SIM. BILLS:** SB 1472

	REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1)	<u>Economic Development Policy Committee</u>	<u></u>	<u>Tait</u>	<u>Kruse</u>
2)	<u>Transportation & Economic Development Appropriations Committee</u>	<u></u>	<u></u>	<u></u>
3)	<u>Economic Development & Community Affairs Policy Council</u>	<u></u>	<u></u>	<u></u>
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5)	<u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

HB 983 creates the Florida Research Commercialization Matching Grant Program to assist small or startup companies that take advantage of federal and state partnerships to accelerate their growth and market penetration. Program applicants must meet several criteria, such as having attracted funding from non-government sources.

The bill directs Enterprise Florida, Inc.'s, Technology, Entrepreneurship and Capital Committee, or a subcommittee, to develop program policy, establish criteria for the grant awards, approve the awards, and review the program's progress and results.

Eligible businesses must be registered with the Department of State, have their primary office in Florida as well as the majority of its employees, and conduct its principal research in Florida. It also must have already received a Phase 1 federal research grant and meet several other requirements. The bill specifies that grants shall be a maximum of \$250,000 each.

The bill also requires the Office of Program Policy Analysis and Government Accountability to review and evaluate the program, and submit a report to the Governor and Legislature by January 1, 2013.

The bill provides for a \$4 million appropriation in recurring general revenue in FY's 2010-2011, 2011-2012, and 2012-2013.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation

For many years, the federal government has recognized the benefits of early capitalization for new businesses. The U.S. Small Business Administration Office of Technology administers the Small Business Innovation Research Program (SBIR)¹ and the Small Business Technology Transfer Program (STTR)². These programs seek to encourage small businesses to explore their technology potential and provide the incentive to profit from its commercialization.³ The only substantial difference between the programs is that the SBIR rewards for-profit businesses only, while nonprofit research institutions may qualify for a STTR grant.

The risk and expense of conducting serious research and development efforts are often beyond the means of many small businesses. By reserving a specific percentage of federal research and development funds for small business, the SBIR and STTR safeguard small businesses from some of that risk and expense, allowing them to compete on the same level as larger businesses. SBIR and STTR help finance the startup and development stages, and encourage the commercialization of the technology, product, or service.

Small businesses must meet certain eligibility criteria to participate in the SBIR and STTR program. The business must be American-owned and independently operated; must have a principal researcher employed by the business; and must not have more than 500 employees. Each year, the SBIR requires 11 federal departments and agencies,⁴ and the STTR requires five,⁵ to reserve a portion of their research and development funds for award to small businesses. These agencies designate research and development topics and accept proposals.

¹ The SBIR program was created by the Small Business Innovation Development Act of 1982 (P.L. 97-219), and has been reauthorized several times.

² The STTR program was created by Title II of the Small Business Research and Development Enhancement Act of 1992 (P.L. 102-564), and has been reauthorized several times.

³ U.S. Small Business Administration website at: <http://www.sba.gov/aboutsba/sbaprograms/sbir/index.html>. Site last visited March 4, 2010.

⁴ U.S. Departments of: Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Transportation, the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation.

⁵ U.S. Departments of: Defense, Energy, Health and Human Services, the National Aeronautics and Space Administration; and the National Science Foundation.

The programs consist of three phases. Following submission of proposals, agencies make SBIR and STTR awards based on small business qualification, degree of innovation, technical merit, and future market potential. Small businesses that receive awards then begin a three-phase program:

- Phase I is the startup phase. Awards of up to \$100,000 for approximately 6 months, to support exploration of the technical merit or feasibility of an idea or technology.
- Phase II awards of up to \$750,000, for as many as 2 years, to expand Phase I results. During this time, the research and development work is performed and the developer evaluates the commercialization potential. Only Phase I award winners are considered for Phase II.
- Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase. The small business must find funding in the private sector or other non-SBIR/STTR federal agency funding.

According to a report by the National Academies, about half of SBIR Phase II grant recipients resulted in a commercialized product or service.⁶ In addition, from 2002 to 2006, approximately 25 percent of *R&D Magazine's* top 100 annual innovations came from companies that had received SBIR grants.⁷

In 2008, Florida companies received a total of 155 Phase I and Phase II SBIR awards totaling \$46.9 million, ranking 11th among the 50 states.⁸ That same year, Florida companies received a total of 22 Phase I and Phase II STTR awards totaling \$4.45 million, ranking 17th in the nation.⁹ California and Massachusetts finished 1-2 in both categories.

Florida has no comparable state grant program. However, Enterprise Florida, Inc., a public-private entity that serves as the state's business arm, has implemented the "Phase 0" Pilot Program to assist eligible companies in developing their SBIR/STTR applications.¹⁰ Created in September 2006, the Phase 0 Pilot Program is a partnership between EFI and technology incubators, University Technology Transfer Offices, economic development organizations, and Small Business Development Centers. The program was created to help improve the success rate of Florida-based companies in winning SBIR/STTR grants; in 2006, Florida ranked 45th in the nation in winning grants.

Eligible applicants can receive a maximum of \$3,000, in two installments, as assistance. These funds can be used for such expenses as consulting fees supporting technology development, commercialization strategies or proposal review; legal or accounting fees; services of a professional for writing, word processing, proof-reading and/or editing of the federal application; and travel expenses incurred to visit the federal agency or laboratory potentially sponsoring the technology.

Since the inception of the Phase 0 Pilot Program, Enterprise Florida has received 62 applications and has made 37 awards, totaling approximately \$76,573.00. Five of those companies have received Phase 1 federal SBIR/STTR grants, and there are an additional 5 applicants awaiting a decision from the federal programs for the current fiscal year. For the 2008-2009 fiscal year, the Phase 0 Pilot Program received 16 applications, and granted 12 awards. In addition, Enterprise Florida gave out \$28,394.67 in awards for the 2008-2009 fiscal year; however, due to the timing of some awards, that figure may include some awards from the previous fiscal year.¹¹

Florida has also created several programs emphasizing the commercialization of new technologies and products, as well as nurturing emerging companies as they move into the marketplace. Florida's initiatives include the Centers of Excellence established with state universities, the Florida Opportunity

⁶ Statement for *Senate Committee on Small Business and Entrepreneurship*, SBIR Roundtable, June 2009, available online at: http://search.sba.gov/cst/cs.html?url=http%3A//www.sba.gov/idc/groups/public/documents/sba_homepage/mills_testimony_sbir_senate.pdf&charset=iso-8859-1&qt=url%3A/sbir+%7C%7C+phase+iii&col=sbaweb&n=4&la=en. Site last visited March 4, 2010.

⁷ Ibid.

⁸ State-by-state search engine at http://web.sba.gov/tech-net/public/dsp_search.cfm. Site last visited March 4, 2010.

⁹ Ibid.

¹⁰ More information available at <http://www.eflorida.com/ContentSubpage.aspx?id=872>. Site last visited March 4, 2010.

¹¹ Information obtained from e-mails from Peyton Woodard, Director of Capital Programs, Enterprise Florida to Economic Development Policy Council staff. E-mails received March 4, 2010.

Effect of Proposed Changes

The bill creates s. 288.9552, F.S., the Florida Research Commercialization Matching Grant Program (program). The program's goals are to:

- Increase the amount of SBIR and STTR research funds received by Florida companies;
- Accelerate the entry of new technology-based products into the market;
- Create technology-based jobs for Floridians;
- Provide leveraged resources to grant applicants to attract more investment;
- Speed the commercialization of promising technologies;
- Encourage the establishment and growth of high-quality technology firms in Florida; and
- Accelerate venture-capital deal flow and enhance the state's investment infrastructure.

This bill directs Enterprise Florida's Technology, Entrepreneurship and Capital Committee, or a subcommittee thereof with no fewer than seven members, to develop the grant program's policy goals and criteria, establish criteria for the grant awards, approve the awards, and review the program's progress and results. The advisory committee members will serve without compensation.

The committee is directed to review and determine grant awards within 45 days of receiving applications. Also, beginning December 1, 2010, and every year thereafter, the committee will submit an annual report to the Governor, the President of the Senate, and the Speaker of the House of Representatives.

Enterprise Florida will provide support staff to the advisory committee, serve as the fiduciary agent for the grant funds, and serve as program administrator. No more than 10 percent of a legislative appropriation may be used to pay the administrative costs associated with the program.

Enterprise Florida's duties as program administrator will include, but not be limited to:

- Establishing and coordinating the grant review, approval, and contracting activities;
- Administering the grant-selection process, such as issuing open-call requests for applications and processing grant applications;
- Serving as grant contract manager;
- Reporting on the program's progress and results; and
- Establishing a mechanism by which information about companies receiving the grants is disseminated to angel, seed, or venture capital investors.

Grant applicants must meet the following criteria:

- Be a business entity that is registered with the Department of State.
- Must have its primary office and a majority of its employees domicile in Florida, and conduct its principle research activities in Florida.
- Be a small company¹² for which a state matching grant is necessary for project development and implementation.
- Must have received a Phase I SBIR or STTR grant and an invitation to apply for a federal Phase II award. Applicants who have already received a Phase II award may apply for a state grant, but they must identify the end date of the federal award and provide justification of how the state grant will enhance, and not supplant, the federal funds.
- Utilize all sources of federal, local and private resources for the project to the maximum extent possible. No more than 25 percent of project funding may come from the new Florida program, and private sector investments should offset the total costs of the project.

¹² HB 983 does not define "small company." Unless otherwise specified, the SBA definition of "small business" would apply. SBA has established two widely used size standards: no more than 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry. See: http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf. Site last visited March 4, 2010.

- Conduct their projects receiving state grants in Florida.

Enterprise Florida, as the program's fiduciary, will award the grant if:

- The committee approves the award;
- The qualified applicant demonstrates that it has obtained a federal SBIR or STTR award; and
- The qualified applicant executes a performance contract with EFI.

The maximum, one-time award amount is set at \$250,000.

The bill also directs Office of Program Policy Analysis and Government Accountability to conduct a review and evaluation of the Florida Research Commercialization Matching Grant Program, and submit a report to the Governor and Legislature by January 1, 2012. The Office of Program Policy Analysis and Government Accountability is specifically directed to evaluate the use of federal funds and private investment by awardees, and the creation of new businesses and jobs, as well as recommend outcome measures for the program.

The bill establishes a \$4 million appropriation in recurring general revenue to Enterprise Florida for the 2009-10, 2010-11, and 2011-12 fiscal years to implement the program.

The bill has an effective date of July 1, 2010.

B. SECTION DIRECTORY:

Section 1: Creates s. 288.9552, F.S., relating to the Florida Research Commercialization Matching Grant Program.

Section 2: Requires the Office of Program Policy Analysis and Government Accountability to conduct a review and evaluation of the effectiveness and viability of the Florida Research Commercialization Matching Grant Program, and report the findings to the Governor and Legislature by January 1, 2013.

Section 3: Establishes a \$4 million appropriation from the General Revenue Fund to Enterprise Florida for the 2010-2011, 2011-2012, and 2012-2013 fiscal years to implement the program.

Section 4: Provides an effective date of July 1, 2010.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

The bill appropriates \$4 million from the state's General Revenue Fund for the 2010-2011, 2011-2012, and 2012-2013 fiscal years for the program.

The bill specifies that Enterprise Florida will be the fiduciary agent and program manager for the new grant program, and that no more than 10 percent of a legislative appropriation may be spent on administrative costs.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Indeterminate, but positive. Companies that have received federal funding through the SBIR or STTR would be eligible for additional funding through the Florida Research Commercialization Matching Grant Program, which may induce the expansion of technology-based research efforts of eligible Florida companies and may attract out-of-state corporations to relocate to Florida.

D. FISCAL COMMENTS:

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. The bill does not appear to effect county or municipal government.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

HB 983 does not define "small company." Unless otherwise specified, the SBA definition of "small business" would apply. SBA has established two widely used size standards: no more than 500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES